Report No. 12-10
February 2013

Medicaid Risk Management Processes Review
Division of Medicaid

Office of the Inspector General
Bureau of Internal Audit

Executive Summary

At the request of the Secretary and to assist in correcting deficiencies noted in Auditor General Report No. 2012-021, *FMMIS Controls and the Prevention of Improper Medicaid Payments*, the Bureau of Internal Audit conducted a review of the Division of Medicaid's (Medicaid) risk management processes. The scope of this engagement covered the risk management processes currently conducted by Medicaid as they pertain to the prevention of improper payments for Medicaid services. Our objectives were to evaluate current risk management processes, evaluate the reporting of key risks, and review the management of key risks. We used the Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Enterprise Risk Management – Integrated Framework* as our criteria in evaluating Medicaid's current risk management processes.

During this engagement, we interviewed senior management and specific Medicaid staff, the Bureau Chief of Medicaid Program Integrity (MPI), and the subcommittee chairs under the Fraud Steering Committee. We also reviewed documents received from management and staff during the course of the interviews. Our review disclosed that Medicaid management identified and addressed a number of risks that could possibly impact Medicaid as well as the Agency. However, our review identified items that can improve Medicaid's risk management processes.

- An Enterprise Risk Management (ERM) Steering Committee should be established to oversee efforts to identify, assess, measure, respond, monitor, and report risks. Also, a core team should be established to adopt the ERM framework and an ERM Officer should be appointed.

- A comprehensive ERM policy needs to be formally developed and documented.

- The process of setting objectives, identifying events, assessing risks, and responding to the identified risk needs to be formalized and documented.

- The compilation of risk assessments completed by the various business units should be the responsibility of the ERM Officer and one business unit.

- Formal communication protocols and procedures to share risk information should be established.

- Information systems should be reviewed to determine if they house useful and relevant data in order for management to implement an effective ERM process.

- The effectiveness of the ERM process should be periodically assessed and deficiencies reported to the appropriate senior managers.

Scope, Objectives, and Methodology

The scope of this engagement covered the risk management processes currently conducted by Medicaid as they pertain to the prevention of improper payments for Medicaid services. Our objectives were to evaluate current risk management processes, evaluate the reporting of key risks, and review the management of key risks. We used the Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Enterprise Risk Management – Integrated Framework* as our criteria to evaluate Medicaid's current risk management processes.

To accomplish our objectives, we interviewed senior management and specific Medicaid staff, the Bureau Chief of MPI, and the subcommittee chairs under the Fraud Steering Committees and reviewed documents provided by management and staff.

Background

The Florida Auditor General conducted an operational audit titled *FMMIS Controls and the Prevention of Improper Medicaid Payments*, Report No. 2012-021, dated October 2011. The report stated that the Agency's ineffective risk assessment processes contributed to the disbursement of improper payments and recommended that the Agency review its internal controls, including its risk assessment processes, as related to the prevention of improper payments for Medicaid Services, and implement effective controls designed to ensure that improper payments are minimized to the greatest extent possible.

What is ERM?

COSO's *Enterprise Risk Management – Integrated Framework* defines ERM as a process, effected by an organization's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the organization, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of organizational objectives. An effective ERM process provides reasonable assurance that governing boards and management understand the extent to which the organization's strategic and operational objectives are being achieved, the organization's reporting is reliable, and that applicable laws and regulations are being followed.

ERM includes:

1. Aligning risk appetite and strategy;
2. Enhancing risk response decisions;
3. Reducing operational surprises and losses;
4. Identifying and managing multiple and cross-organization risks;
5. Seizing opportunities; and
6. Improving deployment of capital/funding.

The components of an ERM framework are: 1) Internal Environment, 2) Objective Setting, 3) Event Identification, 4) Risk Assessment, 5) Risk Response, 6) Control Activities, 7) Information and Communication, and 8) Monitoring.
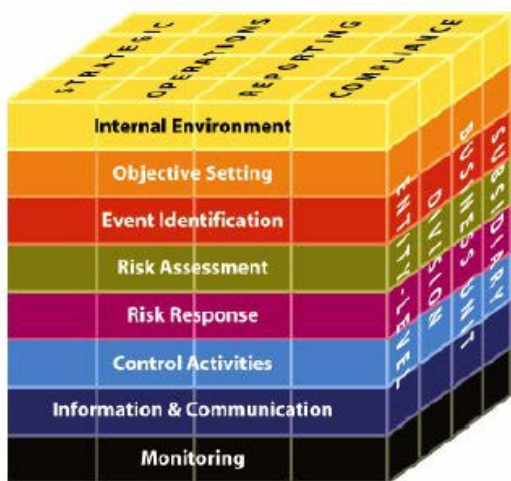
Source: COSO ERM Integrated Framework, dated September 2004

There are four categories of organization objectives established in the framework:

1. Strategic – high-level goals that align with and support the organization's mission.
2. Operations – effective and efficient use of the organization's resources.
3. Reporting – reliability of the organization's internal and external reporting.
4. Compliance – organization's compliance with applicable laws and regulations.

What is the purpose of ERM and why should Medicaid implement an ERM framework?

An ERM framework can help management better deal with risks that prevent Medicaid from achieving its objectives. An effective framework can help Medicaid achieve its performance targets, help ensure effective reporting and compliance with laws and regulations, help avoid damage to the division's reputation, and enhance the Agency's business continuity plan by identifying additional risks and management's responses. In addition to identifying risks related to improper payments, other risks affecting Medicaid can be identified, assessed, and responded to. Management can improve business performance by creating a collaborative effort across the Agency. Various divisions, bureaus and business units can work together in a creative, innovative, and productive way to carry out the Agency's mission and goals.

Components of an ERM Framework and Recommendations

Component #1: Internal Environment

Description: One of the main aspects of the internal environment is setting the tone at the top. The tone of senior management sets the foundation and risk management philosophy of the organization. An organization's risk management philosophy includes setting the organization's risk appetite. Risk appetite is the amount of risk an organization is willing to accept in trying to achieve its mission or vision.

Tone at the Top: The Agency is committed to its mission of "Better Health Care for all Floridians". The Agency's vision is "A health care system that empowers consumers, that rewards personal responsibility and where patients, providers and payers work for better outcome at the best price." The Agency has established values of accountability, fairness, responsiveness, and teamwork to be followed by all employees. The Agency's mission, vision, and values are posted on the intranet for all employees to read. The Agency has an Ethics Policy which the Secretary expects all employees to follow. There is also an Ethics Team comprised of the Chief Ethics Officer, Inspector General, and the Bureau Chief of Human Resources.

Key Elements of Each Component

Internal Environment
Risk Management Philosphy-Risk Appetite-Board of Directors-Integrity and Ethical Values-Commitment to Competence-Organizational Structure-Assignment of Authority and Responsibility-Human Resource Standards

Objective Setting
Strategic Objectives-Related Objectives-Selected Objectives-Risk Appetite-Risk Tolerance

Event Identification
Events-Influencing Factors-Event Identification Techniques-Event Interdependencies-Event Categories-Distinguishing Risks and Opportunities

Risk Assessment
Inherent and Residual Risk-Establishing Likelihood and Impact-Data Sources-Assessment Techniques-Event Relationships

Risk Response
Evaluating Possible Responses-Selected Responses-Portfolio View

Control Activities
Integration with Risk Responses-Types of Control Activities-Policies and Procedures-Controls over Information Systems-Entity Specific

Information and Communication
Information-Communication

Monitoring
Ongoing Monitoring Activities-Separate Evaluations-Reporting Deficiencies

Source: *COSO ERM Integrated Framework Application Techniques*, dated September 2004

Medicaid's Current Processes: Medicaid, a $21.2 billion state and federal partnership serving an estimated 3.29 million recipients, is the medical assistance program that provides access to health care for low-income families and individuals, and assists the elderly and disabled with the costs of long-term care and other medical expenses. The Deputy Secretary for Medicaid (Deputy Secretary) is
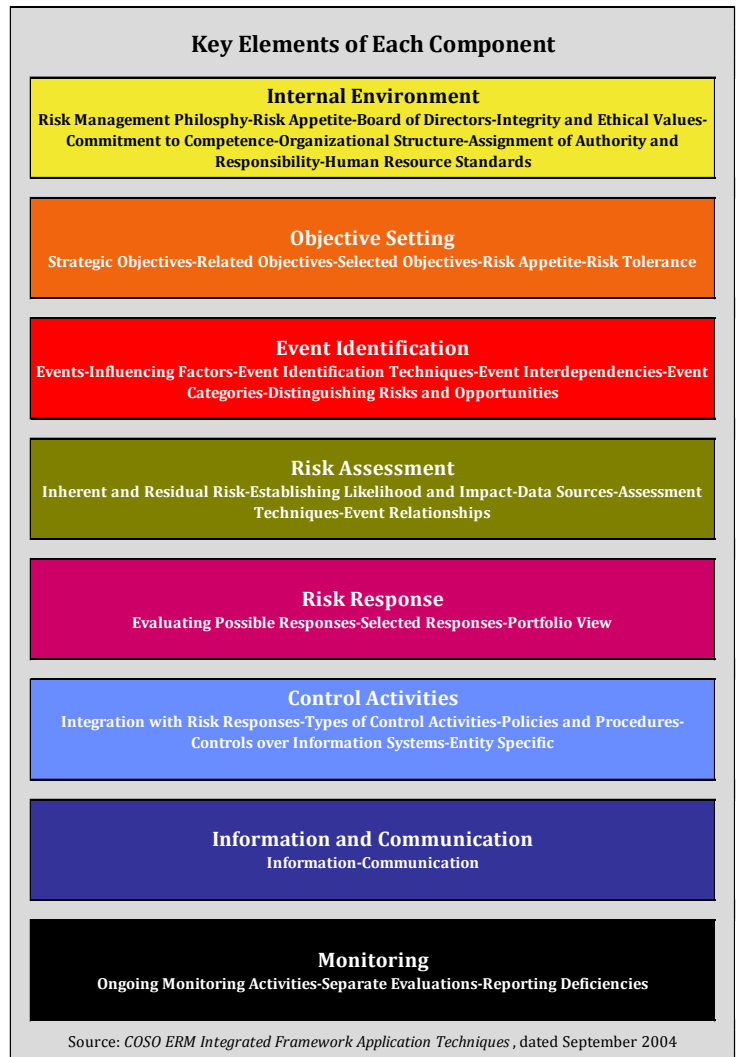
responsible for overseeing the management and operation of a wide range of health care services offered through Medicaid. The following positions and business units report to the Deputy Secretary[1].

The Assistant Deputy Secretary for Medicaid Operations serves as the Chief Operations Officer and is responsible for the planning, development and implementation of policies, procedures and administrative rules related to the 47 mandatory and optional services, and waiver programs. The following bureaus report to the Assistant Deputy Secretary for Medicaid Operations:

- The Bureau of Medicaid Services develops, coordinates, and implements Medicaid program policies, procedures and administration of the program's medical authorization functions, prepares and manages federal Medicaid waivers, prepares budget justifications for program issues, and analyzes the impact of new and amended state and federal laws and rules. The bureau is also responsible for utilization management and prior authorization of certain Medicaid services in addition to designing, advertising, procuring, and monitoring services for specific medical care and unique medical utilization reviews.

- The Bureau of Medicaid Pharmacy Services implements state and federal law, and develops policies and rules to optimize drug therapy for Medicaid recipients ensuring access to pharmaceuticals that are clinically efficient, cost effective, and produce desired outcomes.

- The Bureau of Medicaid Field Operations provides local management of provider networks and assists Medicaid recipients in navigating the health care system.

The Assistant Deputy Secretary for Medicaid Finance serves as the Chief Financial Officer of Medicaid. The following bureaus report to the Assistant Deputy Secretary for Medicaid Finance:

- The Bureau of Medicaid Finance is responsible for budget and fiscal planning, administration of the Low Income Pool, administration of the Disproportionate Share program, and setting rates for institutional providers who are reimbursed on a cost basis. The Bureau also provides cost-based rates for the Medicaid program.

- The Bureau of Medicaid Program Analysis is responsible for budget projections to allow for the administration of the $21.2 billion dollar Medicaid Services budget, and provides data analyses on both fee-for-service and encounter data, as well as setting capitation rates for managed care plans participating in the Medicaid program.

- The Bureau of Medicaid Contract Management oversees the operations of Medicaid's fiscal agent and is the contact bureau for all interaction and instruction given to the fiscal agent. Operations include claims processing and payment, provider enrollment, management of beneficiary files and records, banking, beneficiary assignment to Health Maintenance Organization (HMO) Plans, MediPass, Provider Service Networks, and the Decision Support System (DSS) for data mining.

The Assistant Deputy Secretary for Medicaid Health Systems oversees Medicaid's managed care programs. The following bureau and business units report to the Assistant Deputy Secretary for Medicaid Health Systems:

- The Bureau of Health Systems Development manages contracts with Health Maintenance Organizations, Provider Service Networks, the prepaid dental health plan, and the Medipass program. The Bureau manages the 1915(b) Managed Care Waiver, and the 1115 Medicaid Reform Waiver as well as oversees the preparation of federal Medicaid managed care waiver requests, develops and implements Medicaid managed

---

[1] Subsequent to our review, Medicaid's organizational structure was updated. The Performance Evaluation and Research Unit will report to the Assistant Deputy Secretary for Medicaid Operations. The Bureau of Medicaid Field Operations reports to the Assistant Deputy Secretary for Medicaid Health Systems.

care policies, contracts, applications, and procedures. The Bureau develops and promulgates administrative rules pertaining to managed care.

- The Choice Counseling Unit oversees the call center, which provides the Medicaid recipients with enrollment information for Reform Choice Counseling and Medicaid Options.

- The Performance Evaluation and Research Unit manages and oversees the Medicaid's research contracts, the annual external and independent review of services and quality activities included in the managed health care contracts, contracts for services related to the Children's Health Insurance Program (CHIP) quality demonstration grant, and coordinates the quality and performance measures of the managed health care plans.

The Fraud Prevention and Compliance Unit is responsible for program oversight and compliance (pre-enrollment provider reviews, provider monitoring, coordination with others to assist in improved process and controls), fraud awareness and education (provider-focused training to encourage compliance as well as topic-specific training for internal and external government partners), emerging and expanding areas of focus or programs, (such as coordination of prevention and detection in managed care), and systems and processes (system edits, use of technology to aid in program goals, and increased use of encounter data to address anti-fraud efforts).

The Medicaid Executive Direction Unit coordinates Medicaid correspondence, public requests, contracts, State Plan amendments, and audits for the Office of the Deputy Secretary.

The External Affairs and Project Coordination Unit acts as a liaison for Medicaid between the Agency's legislative office, the Washington D.C. legislative office, legislators, and legislative committee staff with regards to materials relating to Medicaid and the legislative process. The unit also implements legislative and process improvement initiatives to help business units identify process gaps and improvement opportunities.

According to the Deputy Secretary, Medicaid's major focus is on the transition from the fee-for-service (FFS) model to a managed care model. Medicaid has established a project management team and governance committee to oversee the implementation. The Projects and Process Improvement Unit of the External Affairs and Project Coordination Unit coordinates activities related to the transition.

The Deputy Secretary has stated that he is committed to improving Medicaid's risk management processes.

Recommendations:

We recommend:

1. Medicaid formally establish an ERM Steering Committee to oversee efforts to identify, assess, measure, respond to, monitor, and report risks. The Committee should include an executive sponsor and articulate the benefits of ERM.

2. Medicaid establish a core team consisting of individuals from the various bureaus. The team should:
   - Become familiar with the framework's components, concepts, and principles to obtain a common understanding, language, and foundation base needed to design and implement an ERM process;
   - Assess how ERM components, concepts, and principles are currently being applied across Medicaid;
   - Develop a ERM Vision that explains how ERM will integrate within Medicaid to achieve its objectives and goals including how to align risk appetite and strategy; and
   - Develop an implementation plan to adopt ERM.

3. Medicaid develop a comprehensive ERM policy. An ERM policy should also clearly communicate Medicaid's risk management philosophy. Components of an ERM policy should include:

- Purpose of the policy;

- Owner of the policy and stakeholders;

- Background information (definition of ERM, its components, and other related terms);

- Responsible parties and duties including the roles of the business units as a part of an active ERM process; and

- Identification of person(s) who can test compliance with the policy.

4. Medicaid appoint an ERM Officer and a business unit responsible for promoting and teaching risk assessment methods to business owners throughout Medicaid.

Management Response:

Medicaid will form a steering committee sponsored by the Deputy Secretary for Medicaid that will meet monthly. *Anticipated completion date: February 2013.*

The steering committee will consist of key managers from the bureaus that will develop an understanding of ERM principles; determine what level of implementation of ERM is feasible; and develop an ERM implementation plan based on the level of implementation adopted. *Anticipated completion date: July 2013.*

An enterprise risk management approach would be most effective if implemented across the Agency, rather than in one division. The Deputy Secretary for Medicaid will raise the issue of ERM to the Agency Management Team for a determination of whether ERM could be implemented Agency-wide. *Anticipated completion date: June 2013.*

Component #2: Objective Setting

Description: Objectives are set at the strategic level as well as at the business level and include operational, reporting, and compliance objectives. Objectives must be established before management can identify events and assess and respond to risks. Risk appetite and risk tolerance are also included in the objective setting process. Event is an incident or occurrence, from internal or external sources, that affects the achievement of objectives. Risk tolerance is the acceptable range of risk that an organization accepts relative to an objective.

Medicaid's Current Processes: Objectives of Medicaid are formalized in the Agency's Long Range Program Plan. These broad based objectives are: 1) Limit the growth in the per-member-per month expenditures to eight percent or less through FY 2016-17 under the Medicaid Reform 1115 Waiver; 2) By FY 2016-17, slow the growth in long-term care expenditures by $584 million through converting a portion of the institutional care budget to community-based long-term care; 3) Increase MediPass beneficiaries' reported satisfaction rate with access to specialty care services to 85 percent by FY 2016-17; and 4) Maintain or improve baseline performance on 100 percent of all outcome measures developed for the Long Range Program Plan by FY 2016-17. These objectives align with the Agency's strategic goal of assuring access to quality, reasonably priced health services.

In addition, Medicaid's objectives align with state legislation and/or federal law. For example, the Agency developed a Strategic Plan for Data Connectivity to connect all databases with health care fraud information between the Agency, Department of Health, Florida Department of Law Enforcement, and the Office of the Attorney General. The Strategic Plan also includes Medicaid objectives related to Medicaid Information Technology Architecture (MITA) project, which is an initiative of the Center for Medicaid and State Operations, a division of the Centers for Medicare and Medicaid Services (CMS). The MITA Framework is a blueprint for business integration and IT transformation to improve the administration of the Medicaid program.

Although during this review bureau chiefs discussed their objectives during their interviews, most bureaus do not have a formal process where objectives are created, documented, and communicated upward to senior management. Not having a documented process increases the possibility of a misalignment between business level objectives and strategic level objectives resulting in Medicaid's inability to add value for its recipients.

Recommendations:

We recommend:

1. The Bureaus formalize and document their process of setting objectives.

2. Medicaid management periodically reviews objectives to determine if they continue to be consistent with the Agency's and Medicaid's goals and objectives. The review should also be documented.

Management Response:

The level of implementation of ERM will be determined by the Medicaid steering committee. Implementation of this step will be dependent on the steering committee's determination.

Component #3: Event Identification

Description: Management identifies potential internal and external events that will have an impact on the organization and the achievement of the organization's goals and objectives. Events are classified as opportunities or risks. An opportunity is an event that positively affects an organization. A risk is an event that negatively affects an organization.

Medicaid's Current Processes: Senior management identified many risks during the interviews. The Deputy Secretary identified the following as risks that could affect Medicaid:

- Setting capitation rates incorrectly;

- Recipients receiving less than high quality services;

- Paying fee-for-service claims and capitation rates simultaneously;

- Paying capitation rates for a recipient who does not exist;

- Setting the non-risk adjusted rate incorrectly;

- Federal denial of the waiver applications related to the implementation of the Statewide Managed Care program;

- Medicaid's reliance on the quality and validity of encounter data submitted by MCOs;

- Inadequate provider networks; and

- Misalignment of the Medicaid handbooks, state plan, statutes, and Florida Medicaid Management Information System (FMMIS).

Some additional risks identified by Medicaid management include potential litigation, HIPAA violations, the rate setting process, time consuming rule promulgation process, delayed communication of policy changes, outcome of the legislative session, and lack of documentation of internal procedures. Risks identified by senior management that relate to resources include lack of resources to implement the statewide managed care program, and untimely audit reviews and finalization of cost reports.

Risks identified by senior management that relate to data/applications/systems include inaccurate, the intentional manipulation, and/or untimely data received from external sources, untimely updates to FMMIS, functionality and

accuracy of audits and edits in FMMIS, and the absence of a User Acceptance Test environment for Medicaid's Bureau of Pharmacy staff to test pharmacy claims. Risks related to recipients include an increase in recipient enrollment due to external factors, direct reimbursement payments to recipients, recipient enrollment and eligibility issues, and recipient fraud. Risks identified by senior management that relate to providers and health plans include provider enrollment and re-enrollment issues, high turnover of provider office staff, provider fraud, and monitoring of network providers after transitioning to the managed care model.

Medicaid management discusses risks and possible resolutions in many of their meetings. Some risks are identified through the Fraud Steering Committee meetings, while other risks are discovered after an incident. There is no formal process for identifying risks. In addition, Medicaid has no overall risk inventory where identified risks are stored and categorized. Some Bureaus track issues and deficiencies after they occur. For example, the Bureau of Field Operations created an Operational Issues Log that lists issues encountered by the Area Offices and the status of each issue.

Establishing an event identification process would assist senior management in identifying risks and present opportunities that would assist Medicaid in achieving its objectives and goals. Event identification also allows senior management to take a proactive approach in addressing risks and directing opportunities back to Medicaid's strategy and objective-setting processes. Hence, management can create an action plan to seize those opportunities to assist Medicaid in achieving its goals and objectives.

Recommendations:

We recommend:

1. Medicaid develop and document the process of identifying events that could impact the Agency.

2. Medicaid identify risks related to each objective (i.e. Strategic, Operations, Reporting, and Compliance).

3. Medicaid house the risk inventory within a business unit.

4. Medicaid management periodically review risks with senior management.

Management Response:

The level of implementation of ERM will be determined by the Medicaid steering committee. Implementation of this step will be dependent on the steering committee's determination. The steering committee sponsor will periodically review risks with senior management.

Component #4: Risk Assessment

Description: The identified risks from the event identification process are assessed on an inherent and residual basis. The risks are also assessed from likelihood and impact perspectives. Inherent risk is the risk to an entity in the absence of any actions management might take to alter either the risk's likelihood or impact. Residual risk is the remaining risk after management has taken action to change the risk's likelihood or impact. Likelihood is the possibility that an event will occur. Impact is the positive or negative result or effect of an event.

Medicaid's Current Processes: Medicaid does not perform a formal risk assessment. Medicaid management and staff, without an ERM framework, are forced to be more reactive rather than proactive when addressing risks. The Managed Care Fraud and Abuse Subcommittee of the Fraud Steering Committee, is in a similar state, however it is in the process of building a managed health care risk assessment.

A dynamic risk management framework ensures that risks undertaken by Medicaid and the applicable risks undertaken by external parties that assist Medicaid in performing its duties are identified, understood, assessed, and

effectively managed. If risks are not identified, assessed, and prioritized, senior management cannot prepare a plan of action and respond appropriately when a risk event occurs.

Recommendations:

We recommend:

1. Bureaus periodically conduct and document a formal risk assessment.

2. Medicaid assign the duty of compiling all assessments into a comprehensive risk assessment to the ERM Officer and a business unit.

Management Response:

The level of implementation of ERM will be determined by the Medicaid steering committee.   Implementation of this step will be dependent on the steering committee's determination.

Component #5: Risk Response

Description: After assessing the identified risks, management must determine a response to mitigate the risks. Risk responses include risk avoidance, reduction, sharing, and acceptance. Risk avoidance is not participating or stopping the participation in activities that create risk. Risk reduction is the action taken to reduce risk likelihood or impact, or both. Risk sharing is reducing risk likelihood or impact by transferring or sharing a portion of the risk with another organization. Risk acceptance is where no action is taken to affect risk likelihood or impact.

Medicaid's Current Processes: Issues and risk responses are not formally tracked. Although Medicaid endeavors to detect and prevent fraud and overpayments within the Medicaid, risk responses are usually generated after an event takes place. Examples of risk responses include:

- Implementation of the Sandata Telephony project to validate home health care claims;

- Increase in prior authorizations needed to prevent payments for unnecessary services such as occupational therapy, physical therapy, speech therapy, prescribed pediatric extended care, and home health care;

- Use of the Public Assistance Reporting Information System (PARIS) database to avoid paying for non-existent patients or ineligible recipients; and

- Clarification of Medicaid handbooks to assure consistency between state law, rules, and policies as a result of external audit findings and recommendations.

Once management selects a risk response, management can develop an implementation plan. Medicaid management should establish control activities as a part of developing the implementation plan to ensure that risk responses are effectively executed. Risk responses should align with management's risk tolerances and risk appetite. With a developed implementation plan, Medicaid management can properly respond to risk events as they develop and occur.

Recommendations:

We recommend:

1. Bureaus formalize and document risk response as a part of the risk assessment.

2. Bureaus create an implementation plan to outline how responses are executed.

Management Response:

The level of implementation of ERM will be determined by the Medicaid steering committee. Implementation of this step will be dependent on the steering committee's determination.

Component #6: Control Activities

Description: Control activities are the policies and procedures that help ensure that management's risk responses are carried out. Control activities are often the organization's response to identified risks. They include activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and protected information, and segregation of duties.

Medicaid's Current Processes: Medicaid's control activities include policies and procedures, segregation of duties, quarterly reconciliations, site visits, and desk reviews. General controls and application controls have been adopted within Medicaid. For example, certain individuals have specific access to the various systems utilized by Medicaid. There are forms and approvals needed for access into FMMIS, iTrace, and the DSS. Within FMMIS, there are audits and edits that help to prevent improper payments of Medicaid claims. Prior authorizations are also implemented for certain medical services. The Bureau of Medicaid Services is continuously updating and clarifying the Medicaid Handbooks. The State Plan is updated as necessary.

By integrating the identification of control activities with the risk responses, Medicaid can better understand how the control activities align with each type of risk response. In addition, Medicaid management can use control activities as mechanisms for managing the achievement of its objectives.

Recommendations:

We recommend:

1. Bureaus identify control activities that help mitigate identified risks as a part of their risk assessment.

2. Medicaid management periodically review control activities to identify potential gaps and vulnerabilities and to ensure that the controls are current.

Management Response:

The level of implementation of ERM will be determined by the Medicaid steering committee. Implementation of this step will be dependent on the steering committee's determination.

Component #7: Information and Communication

Description: Information systems use internally generated data and information from external sources to assist management in managing risks and making informed decisions relative to objectives. Pertinent information is identified, captured, and communicated in a form and timeframe that enables staff to carry out their responsibilities.

All personnel should receive clear messages from top management that ERM responsibilities must be taken seriously. They should understand their role in ERM in identifying and managing risks, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There needs to be effective communication with external parties, such as recipients, providers, vendors, legislative entities, and other agencies.

Medicaid's Current Processes: Information systems and programs used by Medicaid staff include the DSS, FMMIS, Fraud and Abuse Case Tracking System (FACTS), Drugdex, Firstrax, Complaints/Issues Reporting and

Tracking System (CIRTS), rate setting programs, Medicaid Encounter Data System (MEDS), and Med-Tel which assist staff in carrying out their job duties.

Data housed in Medicaid's current systems is an integral part of the enterprise risk management process. Inaccurate data can result in unidentified risks or inaccurate assessments leading to poor management decisions. Therefore, it is important to control the data system and to have checks in place to verify data accuracy.

Our review found that communication within Medicaid occurs on a frequent basis. For example, the Deputy Secretary meets weekly with the Bureau Chiefs, weekly with the Assistant Deputy Secretaries, weekly/biweekly with staff for waiver updates, FMMIS, and DSS. The Deputy Secretary also meets with the Secretary and certain Medicaid senior management to discuss decision points. Medicaid senior management and staff also have discussions of risk and how they are resolved within Medicaid.

In addition, the Assistant Deputy Secretaries hold various meetings such as biweekly Bureau Chief and Field Office Managers meetings to discuss any new and/or outstanding issues, biweekly manager meetings, and bimonthly Bureau meetings. Bureau Chiefs also have various meetings with staff such as weekly meetings with unit administrators, weekly meeting with Medicaid's Pharmacy Benefit Manager and Agency pharmacists, weekly meetings with industry representatives, weekly field office managers and staff meetings, biweekly clinical staff meetings, quarterly contract monitoring and oversight meetings with analysis staff, and biannual field operations managers' meetings.

Medicaid senior management also participates in the weekly Agency Management Team (AMT) meetings. Medicaid management and staff communicate with external parties such as the legislators, healthcare industry and association representatives, other state agencies, providers, health plans, and the federal Department of Health and Human Services, and the federal Centers for Medicare and Medicaid Services.

The Deputy Secretary and management generally take notes at every meeting. There is some documentation of meetings such as agendas. However, there is no formal documentation method such as meeting minutes which can be disseminated to Medicaid staff. Based on our discussions with management, it appears that management discusses ongoing issues but not necessarily or specifically new emerging risks.

Timely and effective communication is important to ensure that management conveys its priorities and operating, reporting and compliance responsibilities to the entire staff. Effective communication also occurs in a broader sense, flowing down, across, and up the organization. Direct and specific communication develops behavioral expectations and the accountabilities of personnel. This would include having a clear statement of Medicaid's risk management philosophy. Communication about processes and procedures should align with the strategic plans and goals of Medicaid.

Recommendations:

We recommend:

1. Medicaid review its information and communication systems and corresponding outputs to determine if they are sufficient to implement the ERM process.

2. Medicaid management should establish formal communication protocols and procedures, such as meeting minutes, to share risk information.

Management Response:

The level of implementation of ERM will be determined by the Medicaid steering committee. Implementation of this step will be dependent on the steering committee's determination.

Component #8: Monitoring

Description: Monitoring involves assessing the presence and function of the ERM components over time. Ongoing monitoring occurs in the normal course of management activities and can include ongoing monitoring activities and/or separate evaluations. ERM deficiencies are reported to senior management.

Medicaid's Current Processes: There are no monitoring activities to determine if ERM is effective because a formal ERM process has not been established. However, Medicaid does conduct ongoing monitoring activities of its operations. For example, the Process Improvement unit within Medicaid is charged with conducting some monitoring by reviewing and mapping processes, identifying inefficiencies, and making improvement recommendations to the applicable governance committees. Also, the subcommittees of the Fraud Steering Committee conduct some monitoring activities as directed by the Fraud Steering Committee. Recent projects include reviewing audits/edits specific to provider types and developing reporting requirements related to health plan subcontractors. Bureau management and staff also monitor contract provisions of their providers by viewing required reports and quality measurements, and conducting periodic compliance reviews of treating registered providers' credentialing files, quarterly reconciliations of managed care files, semiannual desk reviews of managed care organizations, and compliance testing of managed health care contracts.

Recommendations:

We recommend:

1. Medicaid management create and document processes to assess and monitor the effectiveness of the ERM framework.

2. Medicaid management create and document processes and procedures for reporting and tracking deficiencies discovered during its monitoring activities.

Management Response:

The level of implementation of ERM will be determined by the Medicaid steering committee. Implementation of this step will be dependent on the steering committee's determination.

Final Comments

The Office of the Inspector General would like to thank the management and staff of the Division of Medicaid, the Bureau of Medicaid Program Integrity, and the Sub-committee chairs of the Fraud Steering Committee for the assistance and cooperation extended to us during this review.

This page is intentionally left blank.

This page is intentionally left blank.

This page is intentionally left blank.